

Message Text

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12

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SUBJECT: IRANIAN INFLATION AND CAPITAL IMPORT

1. SUMMARY: THE RATE OF INFLATION IN IRAN HAS NOT SLOWED DOWN, AND THE OUT LOOK IS FOR CONTINUED RAPID GROWTH IN THE MONEY SUPPLY AND IN WAGE RATES, ALONG WITH INFLATION AND A HIGH ECONOMIC GROWTH RATE. CENTRAL BANK DIRECTOR-GENERAL FOR STATISTICS ESTIMATES THAT IRAN WILL AGAIN BE IMPORTING CAPITAL DURING 1976-77. END SUMMARY.

2. IN CONVERSATION WITH EMBOFF ON APRIL 27, DR. MAHMOUD TAJDAR, CENTRAL BANK OF IRAN DIRECTOR-GENERAL FOR STATISTICS, CONFIRMED THAT THE RATE OF INFLATION REMAINS IN 20-25 PERCENT RANGE. WHILE FIGURES FOR FINAL MONTH OF IRANIAN YEAR 1353 (ENDING MARCH 30, 1975) HAVE NOT YET BEEN RELEASED, TAJDAR SAID CONSUMER PRICE INDEX WILL SHOW AN AVERAGE RATE OF INCREASE OF 15.5 PERCENT AND WHOLESALE PRICE INDEX WILL HAVE RISEN BY 15.9 PERCENT. HOWEVER, THESE INDICES UNDERSTATE THE REAL RATE OF INFLATION BECAUSE THEY ARE RESTRICTED TO URBAN, ORGANIZED AREAS OF THE ECONOMY AND DO NOT INCLUDE PURCHASES BY MILITARY AND OTHER GOVERNMENT AGENCIES. DR. TAJDAR SAID THE GOI CURRENTLY IS ESTIMATING THE IMPLICIT PRICE DEFLATOR FOR 1353 AT 23-24 PERCENT AND THAT THIS PROBABLY APPROXIMATES THE REAL AVERAGE RATE OF INFLATION FOR THE NATION.

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3. IN RESPONSE TO EMBOFF'S QUESTIONS, TAJDAR ACKNOWLEDGED THAT THE IRANIAN MONEY SUPPLY AT END OF 1353 IS 56 PERCENT HIGHER THAN A YEAR EARLIER AND THAT WAGES IN BUSINESS AND MANUFACTURING AT THE BEGINNING OF THE CURRENT YEAR HAVE BEEN RAISED FROM 14 TO 25 PER-

CENT. HE SAID THE GOI IS WELL AWARE THAT BOTH RAPID GROWTH IN THE MONEY SUPPLY AND WAGE INCREASES HAVE AN INFLATIONARY IMPACT AND THAT THE OUTLOOK FOR THE CURRENT YEAR IS FOR ABOUT THE SAME LEVEL OF INFLATION AS IN 1353. HE STATED THAT THE GOI SEES NO ALTERNATIVE IN THE CURRENT PERIOD OF RAPID ECONOMIC GROWTH TO PERMITTING SUBSTANTIAL MONETARY GROWTH AND WAGE HIKES TO MEET THE LIQUIDITY NEEDS OF THE ECONOMY AND TO KEEP REAL INCOMES FROM FALLING. THE PROGRAM OF HEAVEY SUBSIDIES FOR BASIC COMMODITIES TO AMELIORATE EFFECTS OF INFLATION TO SOME EXTENT ON THE POOREST CLASSES WILL CONTINUE.

4. TAJDAR REITERATED THE STANDARD GOI LINE THAT MUCH OF THE COUNTRY'S INFLATION IS IMPORTED. HE CLAIMED THAT DURING 1353 PRICES OF THE GOODS IRAN IMPORTS INCREASED BY AN AVERAGE OF 40 PERCENT. IF THIS RATE OF INCREASE IN IMPORT PRICES CONTINUES, AND ASSUMING NO INCREASE IN OIL PRICES, IRAN SHOULD BE ABLE TO SPEND ALL OF ITS FOREIGN EXCHANGE EARNINGS DURING THE CURRENT YEAR. TAJDAR SAID IRAN PROBABLY WILL BE BORROWING MONEY AGAIN DURING 1355 (MARCH 21, 1976-MARCH 20, 1977). HE ACKNOWLEDGED THAT THE CURRENT WORLD ECONOMIC SLOWDOWN COULD MEAN A LOWER RATE OF INFLATION IN IMPORT PRICES WHICH IN TURN WOULD MEAN A MORE FAVORABLE OUTLOOK FOR IRAN'S 1976-77 BALANCE OF PAYMENTS BUT ADDED THAT SO FAR NO INDICATION HAS APPEARED OF A SLOWER RATE OF INCREASE IN THE PRICES OF GOODS THE COUNTRY IMPORTS.

5. COMMENT: DR. TAJDAR'S ESTIMATE OF THE RATE OF INFLATION AND THE OUTLOOK FOR PRICE INCREASES IS PLAUSIBLE AND SEEMS TO BE GENERALLY IN LINE WITH THE ASSESSMENT ELSEWHERE IN THE GOI. THE OUTLOOK IS FOR CONTINUED RAPID ECONOMIC GROWTH AND MORE INFLATION WHICH

HOPEFULLY CAN BE KEPT FROM ACCELERATING TO MUCH ABOVE THE PRESENT RATE

WHEN IRAN WILL NEED TO START IMPORTING CAPITAL AGAIN, HOWEVER, IS MORE CONTROVERSIAL. ESTIMATES RANGE FROM 18 MONTHS TO UP TO FIVE YEARS HENCE. MUCH DEPENDS ON WORLD OIL PRICE DEVELOPMENTS AND WHETHER THE CURRENT LEVEL OF PETROLEUM PRODUCTION CAN BE

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